

Alaska Industrial Development and Export Authority

AIDEA

2007

Financing Alaska's Future

ANNUAL REPORT



MISSION To provide various means of financing to promote economic growth and diversification in Alaska.



CONTENTS

Report to Alaskans	AIDEA Programs	Alaska Wild Berry Products	Boys and Girls Home of Alaska	Skagway Ore Terminal
2	4	10	12	14
	Financial Highlights	Board of Directors	AIDEA Management	Financial Statements CD-Rom
	16	18	19	21



Ron Miller
Executive Director

Report to Alaskans

December 17, 2007

Fiscal Year (FY) 2007 was another year of solid performance by the AIDEA team evidenced by the following accomplishments:

- \$23.8 million dividend made available by the AIDEA Board at its December 2007 meeting for appropriation to the state general fund;
- 32 loan participations for a total of \$56.9 million;
- 451 construction jobs and 283 permanent jobs created or retained through loan participations and guarantees;
- \$39.4 million in conduit revenue bonds issued for Boys and Girls Home and Family Services, Inc.;
- \$11.5 million in conduit revenue bonds for Anchorage Sportsplex, Inc.;
- Credit rating upgrade by Moody’s from A2 to A1;
- A/Stable credit rating affirmed by Standard & Poor’s;
- Re-opening long-dormant Skagway Ore Terminal;
- Construction of second ship lift for Ketchikan Shipyard;
- Continuing work to restart the Healy Clean Coal Project.

AIDEA Dividend The FY 2007 AIDEA dividend to the state general fund of \$23.8 million was an increase of 138% over the FY 2006 dividend of \$10 million and the second highest in the history of the dividend program. The dividend declared for FY 1998 was the highest at \$26 million. Since the beginning of the dividend program, and including FY 2007, AIDEA has declared over \$228.5 million in dividends to the state representing a return to Alaskans on their investment in the state’s economy through AIDEA’s programs.

Loan Participations We saw continued steady growth in our loan participation portfolio. At the end of FY 2007 we had 311 loans totaling \$385.156 million in outstanding participations.

Conduit Revenue Bonds Our conduit revenue bond program continued to deliver value to Alaska by providing funding for an adolescent treatment center in Fairbanks and a year-round sports facility in Anchorage. The bonds issued for Boys and Girls Home and Family Services, Inc. are funding the construction of a 120-bed residential treatment center in Fairbanks that will help bring Alaskan children home from out-of-state facilities. The bonds issued on behalf of Anchorage Sportsplex support the construction of a 177,000 square foot, indoor sports facility suitable for soccer, track and field and other events. Conduit bonds issued by AIDEA do not involve the general credit or assets of AIDEA or the State of Alaska.

Ratings Upgrade This year, Moody’s Investors Service (Moody’s) upgraded AIDEA’s credit rating to A1 from A2 in recognition of our strong balance sheet. We also saw Standard & Poor’s (S&P) affirm our A/Stable rating they gave us in October, 2005, citing AIDEA’s conservative and well-established management policies and practices.

Skagway Ore Terminal In January of this year, we concluded an agreement with Sherwood Copper Corporation and its wholly owned subsidiary, Minto Explorations, for use of our Skagway Ore Terminal (SOT). Throughout the summer, AIDEA's contractors worked to ensure the facility could handle the first shipments from Minto Exploration's copper/gold mine at Minto in the Yukon Territory. This fall we had the first load-out at the SOT in 10 years. We are now in discussions with other potential users of the facility. We are proud that we could put the terminal back in operation, producing a return on the state's investment, jobs for Alaskans and a boost to the Skagway economy.

Ketchikan Shipyard In FY 2007 we completed construction of a second dry dock for our shipyard in Ketchikan. The civil work necessary for installation of the dry dock should be completed by the summer of 2008. The additional ship lift will expand the capacity of the shipyard, creating more jobs in Ketchikan and allowing the shipyard operator, Alaska Ship and Drydock, to handle more vessel repair and construction work at any given time.

Healy Clean Coal Project In November 2005, AIDEA filed suit against Golden Valley Electric Association (GVEA) to gain the access necessary for AIDEA to restart and operate the Healy Clean Coal Project (HCCP) located on GVEA land. Court-ordered mediation continues with progress being made on a land lease and other agreements. AIDEA also continues working with Homer Electric Association (HEA) on HCCP restart engineering and design. In November 2006, we signed a Project Development Agreement and a Power Sales Agreement with HEA for HCCP. HEA will be a good partner with AIDEA in restarting the power plant and using Alaskan coal to produce affordable, reliable electricity for the Railbelt.

Five-Year Summary For five years I have had the honor of serving the people of Alaska as AIDEA's Executive Director. During that time it has been a privilege to work with the Authority's dedicated staff. In the last five years, these hard-working Alaskans have:

- Funded nearly \$323 million in new loan participations, helping create or retain 3,282 permanent jobs and 2,232 construction jobs;
- Made available \$81.2 million in dividends for appropriation to the state general fund;

- Achieved two credit ratings upgrades;
- Disposed of over \$26.2 million in OREO properties including the Alaska Seafood International plant;
- Issued over \$394 million in conduit revenue bonds;
- Concluded a long-term operating agreement for the Ketchikan Shipyard;
- Re-opened the Skagway Ore Terminal;
- Concluded power sales and project development agreements for the Healy Clean Coal Project;
- Initiated an intern program;
- Individually supported charitable causes with thousands of dollars in donations, and food and clothing drives;
- Held eight blood drives aiding over 180 Alaskans;
- Supported Alaskans serving in Iraq through Christmas packages to the 1st Battalion, 297th Infantry Regiment (Scout) of the Alaska Army National Guard.

I have said it before and I repeat it here: AIDEA's staff are Alaskans at their best and it has been my privilege to work with them.

A description of AIDEA's programs follows with information on selected projects we helped finance in FY 2007. The Annual Report format is new this year in that we have included our audited financial statements on a CD rather than print them in the report. We have also posted the financial statements on our web site: www.aidea.org.

Sincerely,
Ron Miller
Executive Director

A graphic consisting of several overlapping light blue squares of varying sizes and opacities, arranged in a stepped pattern. The text 'AIDEA Programs' is centered within one of the squares.

AIDEA Programs

Loan Participation Program

This program provides permanent financing, both taxable and tax-exempt, to borrowers through a qualified originator for the purpose of developing, acquiring or enhancing Alaska business enterprises. The Loan Participation Program provides the benefit of long-term fixed or variable rate financing on the portion of the loan purchased by AIDEA, which may reduce the business enterprise's debt service. AIDEA does not originate loans, but is able to purchase up to 90 percent of a commercial loan to a maximum of \$20 million. The project being financed must be in Alaska. The loan request must be sponsored and originated by a financial institution eligible to participate in AIDEA's credit programs.

Program Highlights

AIDEA provides fully amortizing, long term financing up to 15 years for personal property or 25 years for real property. The maximum loan-to-value is 75 percent.

AIDEA offers either a fixed or variable interest rate.

The term of the AIDEA portion of the loan can exceed the bank's term, thereby lowering the scheduled payments.

AIDEA provides a secondary long-term market for eligible financial institutions.

The originating financial institution retains a portion of the loan and also services the entire loan (i.e., payments are made to the bank, not to AIDEA).

The project must be in Alaska.

Business and Export Assistance Program

Through its Business and Export Assistance Program, AIDEA provides loan guarantees for domestic and export transactions and serves as a city-state partner with the U.S. Export-Import Bank. The Loan Guarantee Program is designed to assist small to medium-sized Alaska businesses. AIDEA's support can make project financing, refinancing and working capital loans possible for those borrowers who might not otherwise obtain commercial financing. Guarantees are available to eligible Alaska businesses for real property, tangible personal property, working capital and export transactions. AIDEA is authorized to guarantee up to 80 percent of a loan, to a maximum of \$1 million. Loans must be originated by an eligible financial institution. The guarantee extends to the principal balance, accrued interest and liquidation expenses. AIDEA assistance, aimed at small businesses and entrepreneurs in rural Alaska, allows unsecured loans for up to \$100,000 for qualified borrowers and projects.

Through AIDEA, small and medium enterprises (SMEs) have access to the U.S. Export-Import Bank (Ex-Im Bank). The Ex-Im Bank has a partnership with AIDEA that helps Alaska SMEs make greater use of the Bank's financing programs. The Ex-Im programs include working capital guarantees, export credit insurance, medium and long-term guarantees and direct loans to foreign buyers.

Loan Guarantee Program Highlights

AIDEA offers terms of 180 days for a post-shipment export transaction;

270 days for a pre-shipment export transaction;

One year if secured solely by inventory or accounts receivable and a non-export transaction;

Five years if working capital;

15 years if secured by tangible personal property;

20 years if secured by real property;

Project must be in Alaska and majority-owned by Alaska residents.



Conduit Revenue Bond Program

AIDEA acts as a conduit for the issuance of tax-exempt and taxable revenue bonds. A business enterprise, or non-profit corporation, may request the adoption of an eligibility resolution for tax-exempt financing by submitting a preliminary application along with a nonrefundable \$500 application fee. If AIDEA's Board adopts an eligibility resolution for the project, the applicant and AIDEA enter into a Memorandum of Agreement. Neither AIDEA's assets nor credit are at risk in this program. The creditworthiness of the project, borrower strength and any credit enhancements are essential to the underwriting and placement of revenue bonds. In addition to third-party costs, the applicant pays a bond issuance fee to AIDEA at bond closing.

Small Bond Program

Generally, conduit revenue bond transactions less than \$10 million may not be cost effective because of the high fixed transaction costs associated with this type of financing. AIDEA partnered with Wells Fargo Brokerage Services to establish a program that provides cost effective financing for small conduit revenue bond transactions. Within this Small Bond Program, documentation has been streamlined and standardized to effectively eliminate or reduce various transaction costs. The result: Customers with smaller financing needs can take advantage of the Conduit Revenue Bond program, especially when the project qualifies for tax-exempt financing.

For more information on AIDEA's financing programs, please visit www.aidea.org/programs.

Rural Development Initiative Fund (RDIF)

AIDEA's RDIF Loan Program is administered by the Department of Commerce, Community and Economic Development, Division of Investments. The goal is to provide long-term private sector employment by financing business start-up and expansion in communities with a population of 5,000 or less. Rural Development Initiative Fund loans may be made for working capital, equipment, construction or other commercial purposes, and must result in the creation of new jobs or the retention of existing jobs in the eligible community. The maximum loan amount is \$100,000 to a person or up to \$200,000 to two or more people for a maximum term of 25 years at 1 percent below the prime rate.

Small Business Economic Development Program

This program is also administered by the Department of Commerce, Community and Economic Development, Division of Investments. The goal is to provide long-term private sector employment by financing business start-up and expansion for companies that are a small business as defined by the Small Business Administration (SBA). Applicants are required to match loan funds with cash or other private financing. Small Business Economic Development Program loans must result in the creation of new jobs or the retention of existing jobs in eligible areas. The maximum loan amount to 90 percent of the secured value is \$300,000 for a maximum term of 20 years on fixed asset loans and five years for working capital loans. The interest rate is fixed and generally below 6 percent.

For more information on the RDIF Loan Program and Small Business Economic Development Program, please see www.dced.state.ak.us/investments.



Development Finance Program

AIDEA assists Alaskan business through its ability to develop, own and operate basic installations and facilities within the state, with the purpose of advancing the prosperity of a region. Manufacturing facilities, roads, ports, airports, infrastructure for tourism destination facilities or other public use facilities essential for regional economic well-being are considered eligible projects. With detailed information, staff and legal counsel determine eligibility, whether the project satisfies the development criteria for AIDEA participation and if the project can meet tax-exempt financing status.

Additional Project Criteria

The project and its development under AS 44.88 must be economically advantageous to the state and public welfare and must contribute to economic growth;

The project is economically and financially able to produce revenue to repay the bonds or loans;

Increased demand on public facilities resulting from the project will be provided for;

Issuance of the bonds is not expected to adversely affect the ability of the state to market other bonds.



Alaska Wild Berry Products, Inc.
Loan Participation

Boys and Girls Home and Family Services, Inc.
Conduit Revenue Bonds



Skagway Ore Terminal
Development Finance

Alaska Wild Berry Products

Alaska's Jelly and Candy Icon

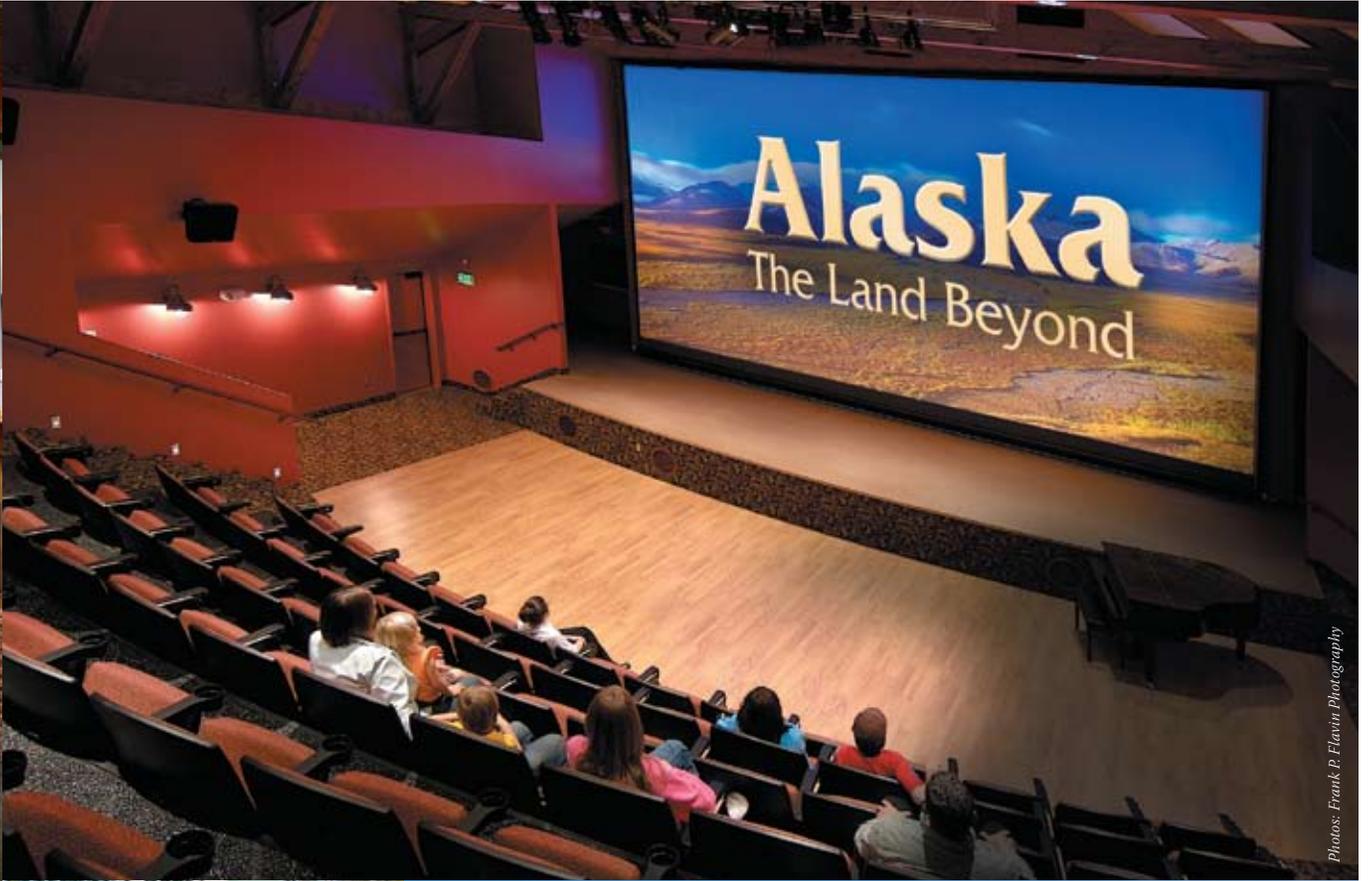
Loan Participation

With operations dating back to 1946, when Hazel Heath began selling jams and jellies out of her Homer, Alaska kitchen, Alaska Wild Berry Products is a well-known symbol of Alaska's natural bounty. Every summer since 1946, many Alaskans have enjoyed picking wild berries for the company, which turns the harvest into wild berry jams and jellies, syrups and sauces, chocolates, fudges and other candies.

Alaska Wild Berry Products has expanded considerably since its humble beginnings. The company now features world-wide distribution, partnerships with other Alaskan businesses and the Wild Berry Park and Theater. A walking path, reindeer petting zoo along with snack shops and a replica old-time village awaits customers who have browsed their way through the store.

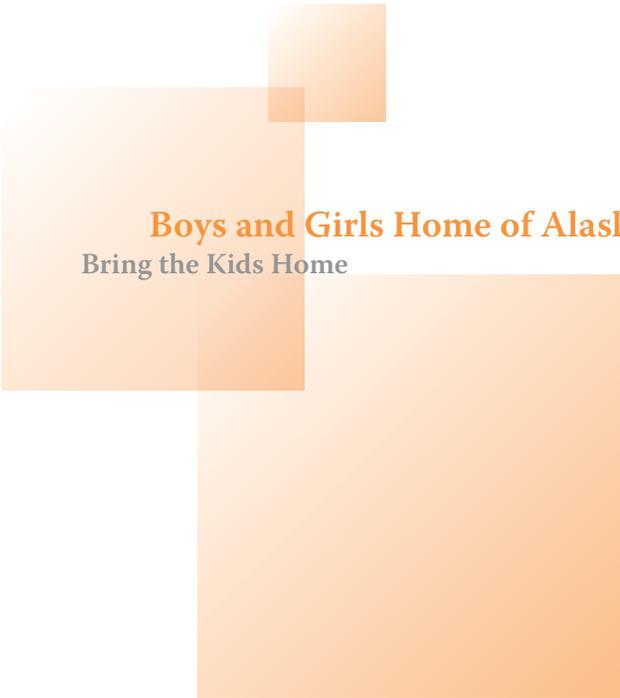
In August 2006, AIDEA participated at 90 percent with First National Bank Alaska in a deed of trust on the Alaska Wild Berry Products main store in Anchorage.

With the addition of the Wild Berry Theater, the Alaska Wild Berry Products location is becoming a night-time destination as well. Concerts, movies and special events are helping this Alaskan jelly and candy icon become a year-round destination not only for Alaskans, but for tourists as well.



Photos: Frank P. Flavin Photography





Boys and Girls Home of Alaska

Bring the Kids Home

Conduit Revenue Bonds

In March 2007, AIDEA issued \$39,435,000 of Community Provider Revenue Bonds to finance the acquisition of land and the construction, equipping and furnishing of a 120-bed residential adolescent treatment center located in Fairbanks.

Boys and Girls Home of Alaska, a subsidiary of Boys and Girls Home and Family Services in Sioux City, Iowa, has partnered with Family Centered Services of Alaska to offer this full continuum of behavioral and mental health care for Alaska youth needing these services.

The new Fairbanks facility is designed for young Alaskans who previously had to leave the state to obtain treatment, and signifies a major advance in Alaska's campaign to Bring The Kids Home.

Construction of the five building campus, located on 13 acres at the corner of 30th and Lathrop in Fairbanks, is on schedule. The project is expected to be fully operational by December 31, 2008.

The Community Provider Revenue Bonds that were issued for this project are secured solely by the pledge of the borrower, Boys and Girls Home and Family Services, Inc., a 501 (c)(3) corporation. The bonds do not constitute indebtedness or other liability of the State of Alaska or AIDEA.



“We are very pleased that AIDEA is able to help Alaska’s children by bringing this much-needed adolescent treatment center to life. This bond sale not only adds to AIDEA’s support of Alaska’s health care sector; it will lead to the fulfillment of a critical need for many Alaska families by helping bring our kids home from out-of-state treatment facilities.” AIDEA EXECUTIVE DIRECTOR RON MILLER





From left to right: 1—High grade copper-gold concentrates in storage awaiting shipment. 2—First truckloads of high grade copper-gold concentrates arrive from Minto Mine in Yukon Territory. 3—Load and departure of ship full of high grade copper-gold concentrates. 4—SOT concentrate storage building under construction.



Skagway Ore Terminal Milestone

Open for Business

Development Finance

In October 2007, for the first time in ten years, mineral concentrates were loaded on a ship at AIDEA's Skagway Ore Terminal. This milestone was achieved after months of hard work by many people, and serves as a great example of what can be done to get a non-performing asset back in operation, produce employment for Alaskans and generate a return on the state's investment.

In January 2007, AIDEA executed a seven-year User Agreement with Sherwood Copper Corporation and began constructing a new concentrate storage building and support structures to handle the concentrates.

In July, Skagway Ore Terminal received the first truckloads of high grade copper-gold concentrates in two-ton supersacks from Sherwood Copper's Minto Mine in the Yukon Territory, and in October the M/V Amur, owned by Far Eastern Shipping Co. (FESCO) out of Vladivostok, Russia, loaded out the concentrates.

The Ore Terminal Reactivation Project reached final completion in November. AIDEA's Skagway facilities have been carefully designed for easy expansion to handle product from additional Ore Terminal users. AIDEA is actively discussing with other mining companies the potential use of Skagway Ore Terminal space.

AIDEA is proud to have delivered on its commitment to bring the Skagway Ore Terminal back to life.



Load and departure of ship full of high grade copper-gold concentrates. First time in 10 years.

Financial Highlights

For AIDEA's complete Financial Statements, log on to www.aidea.org or refer to the CD-ROM on back cover

Alaska Industrial Development and Export Authority
Revolving Fund
Financial Highlights
(In thousands)

Balance Sheet	June 30,	
	<u>2007</u>	<u>2006</u>
<i>Assets</i>		
Investment securities and cash	\$ 359,218	366,861
Loans, net	376,198	348,949
Development projects	334,152	321,845
Other assets	20,626	12,592
Snettisham Project assets	93,287	93,974
<i>Total assets</i>	<u>1,183,481</u>	<u>1,144,221</u>
<i>Liabilities and Net Assets</i>		
Revolving Fund bonds	192,015	197,160
Other liabilities	11,359	8,681
Snettisham Project liabilities	93,287	93,974
<i>Total liabilities</i>	<u>296,661</u>	<u>299,815</u>
<i>Net assets</i>	<u>886,820</u>	<u>844,406</u>
<i>Total liabilities and net assets</i>	<u>\$ 1,183,481</u>	<u>1,144,221</u>
Revenues, Expenses and Changes in Net Assets		
Year Ended June 30,		
	<u>2007</u>	<u>2006</u>
<i>Operating revenues:</i>		
Interest on loans	\$ 25,089	21,147
Interest on direct financing leases	16,810	17,055
Investment interest	17,599	16,016
Net increase (decrease) in fair value of investments	3,581	(14,113)
Other income	4,112	4,475
Snettisham Project restricted income	4,522	4,593
<i>Total operating revenues</i>	<u>71,713</u>	<u>49,173</u>
<i>Operating expenses:</i>		
Interest	10,757	11,882
General and administrative	8,014	7,718
Provision for loan losses	(3,674)	—
Depreciation	1,949	1,949
Other	—	76
Other project expenses	2,872	2,964
Snettisham Project interest expense	4,522	4,593
<i>Total operating expenses</i>	<u>24,440</u>	<u>29,182</u>
Operating income	47,273	19,991
Net nonoperating revenues	11,791	1,696
Dividend to State of Alaska	(16,650)	(8,812)
<i>Increase in net assets</i>	<u>\$ 42,414</u>	<u>12,875</u>

Board of Directors



Emil Notti
Chairman
Commissioner, Department
of Commerce, Community and
Economic Development,
State of Alaska



John R. Winther
Vice Chairman
CEO, Prowler Fisheries



Brian Andrews
Deputy Commissioner
Department of Revenue,
State of Alaska
Designee for Patrick Galvin
Commissioner
Department of Revenue,
State of Alaska



John T. Kelsey
Owner
Kelsey Enterprises



Leo von Scheben
Commissioner
Department of
Transportation and
Public Facilities,
State of Alaska

AIDEA Management



Alaska Industrial Development and Export Authority

Ron Miller, Executive Director
Chris Anderson, Deputy Director – Credit
Sara Fisher-Goad, Deputy Director – Operations
Mike Harper, Deputy Director – Rural Energy
James Hemsath, Deputy Director – Development
Karl Reiche, Projects Development Manager
Valorie Walker, Deputy Director – Finance

813 West Northern Lights Boulevard
Anchorage, Alaska 99503
Telephone: 907.771.3000
Fax: 907.771.3044
Toll free in Alaska 1.888.300.8534
www.aidea.org

Exemption from taxation

The Alaska Industrial Development and Export Authority is a political subdivision of the State of Alaska performing an essential governmental function and as such is not subject to federal or state income taxation. In accordance with AS 44.88.140 (a), the Authority submits the following information describing the nature and extent of the tax exemption of the Authority's property: All furniture, fixtures and equipment utilized by Authority personnel and real property occupied by the Authority offices within the Municipality of Anchorage are exempt from Municipality of Anchorage property taxes. All real and personal property associated with or part of projects developed, originally owned or operated under the Economic Development account located within cities, municipalities and/or boroughs are exempt from any respective real and personal property taxes.



Financial Highlights

For AIDEA's complete Financial Statements, log on to www.aidea.org or refer to the CD-ROM.



Alaska Industrial Development
and Export Authority

813 West Northern Lights Boulevard, Anchorage, Alaska 99503 Tel: 907.771.3000 Fax: 907.771.3044 Toll free in Alaska 1.888.300.8534 www.aidea.org